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Surveys of Consumers

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DROUGHT HEIGHTENS PRICE EXPECTATIONS OVERALL CONFIDENCE REMAINS STRONG

- The Index of Consumer Sentiment was 94.7 in the June 1988 survey, virtually unchanged from the 94.8 recorded in May, and above the 91.5 recorded last June. While the overall level of consumer confidence remains high, concerns about the potential consequences from the drought have begun to influence consumer's economic expectations. Price expectations have risen sharply, especially in the last half of June. These heightened fears of inflation have only just surfaced, and have not yet been reflected in consumer's overall assessments. If these initial fears of inflation are reinforced in the months ahead, they will quickly erode consumer confidence.

- Among families with incomes of $30,000 or more in the June 1988 survey, the Index fell to 102.3 from 106.6 in May, leaving it just below the year earlier reading of 102.9. Residents of the North Central region recorded the largest decline in the Index in the June survey (91.2, down from 95.5 in May), but was offset by the opposite shift among residents of the South (95.9, up from 91.1 in May).

- In the June 1988 survey, consumers expected the annual rate of inflation to average 5.6% during the year ahead, up from 4.9% one month earlier, and 4.1% three months earlier. This is the highest rate of inflation expected by consumers in more than four years.

- Interest rates were expected to increase during the year ahead by 67 percent of all families in the June 1988 survey, confirming the sharp rise recorded in May. These expectations have now completely reversed the declines recorded following the stock market crash, and are now as unfavorable as they were in the months prior to the crash—69 percent expected interest rate increases in the June 1987 survey.

- These heightened concerns with interest rates have also been reflected in consumer's attitudes towards purchases of homes. Favorable home buying attitudes were held by 73 percent of all families in the June 1988 survey, a reading that has remained largely unchanged during the past three months, and is identical to the year earlier figure. What has changed are the underlying reasons for these opinions. During the past three months references to the current availability of low mortgage interest rates fell to 34 from 47 percent, while references to the appeal of borrowing-in-advance of rising interest rates rose from 7 to 15 percent. At the same time, there has been little change in the frequency of complaints that current mortgage rates were already too high—10 percent in the June 1988 survey, just above the 9 percent recorded three months earlier.

- In contrast to their reaction to impending interest rate increases, consumers are not likely to react to escalating prices with advance buying. The inflation fears are focused on food prices, not on the prices of homes, vehicles, or major household durables.

- Favorable car buying attitudes were held by 62 percent of all families in the June 1988 survey, just below the month earlier (64 percent) and year earlier figures (65 percent). References to the availability of low interest rates on vehicle loans were reported by 16 percent of all families in June 1988, less than half the 35 percent recorded one year earlier. Unlike home buying attitudes, references to borrowing-in-advance of rising interest rates have not increase in frequency—reported by just 4 percent in June. This reflects the now more common reaction of consumers to wait for renewed discounting by vehicle manufacturers rather than speed up their purchases. The strength in vehicle buying attitudes has been maintained by the continued availability of price discounts—reported by 30 percent in June.

- Personal financial evaluations remained at very favorable levels in the most recent survey. An improved financial situation during the year ahead was expected by 39 percent of all families in June 1988, up from 36 percent one month earlier and 33 percent one year earlier. Just 10 percent of all families expected their financial situation to worsen. These financial expectations have not yet reflected the heightened inflation concerns, and they are very vulnerable to future declines. Throughout this long expansion, the strength of these evaluations has been based on low and stable inflation rates. With the expectation of only small nominal income increases, an acceleration in the rate of inflation will turn what had been small real income gains into losses.

- Just over half of all families in the June 1988 survey expected good times financially in the economy as a whole during the next year, a reading that has remained largely unchanged during the past few months.

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The June 1988 survey was conducted between June 1 and June 27, 1988 and included 500 completed interviews.